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SUBJECT: ON AGAIN, OFF AGAIN -- THE NABUCCO IGA

Sensitive but Unclassified - not for Internet distribution.

¶1. (SBU) Summary. Press reports yesterday quoted Turkey's Energy Minister Taner Yildiz as saying "We haven't given up on the demand to take 15 percent of the gas that will be carried by the Nabucco pipeline; it's still being discussed."

This announcement came just a week after Nabucco Chief Reinhard Mitschek told reporters that the 15 percent demand was no longer on the negotiating table. An EU Commission official explained, however, that the Commission does not interpret this statement as Turkish backpedaling on the Nabucco intergovernmental agreement (IGA). It is a subtle point, the official explained, but both the Mitschek and Yildiz could be correct. The private sector offers of security of supply gas to Turkey are, as it happens, equivalent to 15 percent in volume of the Nabucco first phase. What Turkey has given up is that the 15 percent is a condition of transit. The official pointed out that Turkey is still in negotiations on the price for Shah-Deniz Phase 1 gas from Azerbaijan and Turkey continues to use the 15 percent issue to pressure Azerbaijan. Separately, Azerbaijan knows that, at least within the Nabucco IGA, this is not the case. End Summary.

¶2. (SBU) An EU Commission official told Econ Officer on June 4 that the Commission does not interpret Yildiz's statement as Turkish backpedaling on the Nabucco intergovernmental agreement (IGA). It is a subtle point, the official explained, but both the Mitschek and Yildiz could be correct.

The private sector offers of security of supply gas to Turkey (from EONGAS and RWE Trading) are, as it happens, equivalent to 15 percent in volume of the Nabucco first phase. What Turkey has given up is that the 15 percent is a condition of transit (which in the Commission's view would be illegal under GATT, Energy Charter, etc.), rather than a separate commercial deal. This is reflected in the Nabucco IGA, where the State Parties are obliged to respect commercial deals that satisfy Turkey's security of supply.

¶3. (SBU) The official indicated that the Commission recognizes that Turkey has essential obligations to meet its supply needs for gas. To meet these needs, the Commission has encouraged commercial parties to look at commercial deals concluded on an equitable basis that will cover Turkey's supply needs. This is commercial, between the companies involved, and, the official stressed, is separate to the negotiation of the Nabucco IGA. The companies making the commercial deals are not the same companies (this is strictly speaking true) that are building Nabucco. The Commission's understanding is that these commercial discussions are continuing and it is to this that Minister Yildiz is referring. The Commission supports these negotiations. The essential point, according to the official, is that the

commercial discussions on supply and the commercial discussions on building infrastructure have been delinked.

¶4. (SBU) The Official added that the Nabucco infrastructure talks have facilitated the security of supply/commercial talks by adding the requirement for reverse flow capacity on the Nabucco pipeline. By having secured reverse flow technology, the official argued, Turkey has achieved the physical prerequisite to allow the commercial deals to go ahead. In the mind of the Commission, this is a big win for Turkey. The official pointed out that Turkey is still in negotiations on the price for Shah-Deniz Phase 1 gas from Azerbaijan and Turkey continues to use the 15 percent issue to pressure Azerbaijan. Separately, Azerbaijan knows that, at least within the Nabucco IGA, this is not the case.

¶5. (SBU) Comment. Despite the sometimes contradictory statements from Nabucco, EU, and Turkish officials, the overall mood among negotiators is upbeat. Commission and industry officials are confident that they are close to clinching the deal for the IGA. The timing may slip from the June deadline set in Prague, but our interlocutors are confident an agreement can be reached by the first half of July. End Comment.

Davis

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